



Report of the auditor-general to the North West Provincial Legislature and the council on the Dr. Kenneth Kaunda District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Dr. Kenneth Kaunda District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Dr Kenneth Kaunda District Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Expenditure

3. The municipality did not have adequate systems to maintain records for expenditure on goods and services paid for. This resulted in general expenses being understated by R5 889 367, contracted service being overstated by R22 529 106, transfers and subsidies being understated by R6 193 707, VAT receivable being understated by R1 656 310, receivables from non-exchange transactions being understated by R398 598, and payables from exchange transaction being understated by R4 662 151. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
4. I was unable to obtain sufficient appropriate audit evidence that services were received for payments made to contractors as the information and explanations I considered necessary could not be provided by management. I was unable to confirm these payments classified as contracted services by alternative means. Consequently, I was unable to determine whether any adjustments relating to goods and service of R R43 519 475 (2017) R35 568 279 disclosed in the statement of financial performance and note 29 to the financial statements were necessary.
5. I was unable to obtain sufficient appropriate audit evidence for general expenses as the information and explanations I considered necessary could not be provided by management. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to general expenses of R29 407 603 disclosed in the statement of financial performance and note 30 to the financial statements were necessary.

Irregular expenditure

6. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for the restated irregular expenditure of R101 823 533 incurred in the previous year as documentation to confirm the irregular expenditure disclosed was not provided for audit. The municipality's records did not permit the application of alternative procedures. In addition, the municipality made payments of R3 671 158 in the current year in contravention with the supply chain management requirements, which were not included in irregular expenditure disclosed. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R129 787 357 (2017: R101 823 533), as disclosed in note 46 to the financial statements was necessary.

Context for the opinion

7. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
8. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, fruitless and wasteful expenditure

11. As disclosed in note 44 to the financial statements, unauthorised expenditure of R17 497 853 was incurred in the current year, while unauthorised expenditure of R50 468 921 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
12. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R157 971 was incurred in the current year, while fruitless and wasteful expenditure of R10 427 764 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of comparative amounts

13. As disclosed in notes 39 and 40 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors and reclassifications in the financial statements of the municipality at, and for the year ended 30 June 2018.

Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure note

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance area	Pages in the annual performance report
KPA 1 – Basic services and infrastructure development	x – x

23. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further



procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

24. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

KPA 1 – Basic service and infrastructure development

KPI 5: Number of municipal health licences issued by June 2018

25. The achievement for this indicator reported in the annual performance report was 334. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 401.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the reliability of the reported performance information in paragraphs xx to xx of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: Basic services and infrastructure development. As management subsequently corrected only some of the misstatements, I reported material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

29. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
30. The material findings on compliance with specific matters in key legislation are as follows:

Strategic planning and performance management

31. Annual performance objectives and indicators for the Dr Kenneth Kaunda District Municipality Economic Agency SOC Limited were not established by agreement between the municipality and the entity, as required by sections 93B(a) and 93C(a)(iv) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Financial statements

32. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material

misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

33. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and supply chain management (SCM) regulation 44.
34. Some of the quotations were accepted from bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
35. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
36. Contracts was awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

Human resource management

37. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.

Expenditure management

38. Reasonable steps were not taken to prevent unauthorised expenditure of R17 497 853, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed in note 46 does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. Most of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
40. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R157 971, as disclosed in the note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the disclosed fruitless and wasteful expenditure was caused by late payments that resulted in interest payable.

Assets management

41. Funds were invested with a mutual bank not registered in terms of the Banks Act, 1990 (Act No. 94 of 1990), in contravention of the municipality's investment policy and regulations 3(3) and 6 of the Municipal Investment Regulations.
42. Capital assets were permanently disposed of without the approval of the council, as required by section 14(2)(a) of the MFMA.

Consequence management

43. The unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

44. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the executive mayor's report, municipal manager report and audit committee report. The other information does not include the financial statements, the auditor's report thereon and those selected key



performance areas presented in the annual performance report that have been specifically reported on in the auditor's report.

45. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
46. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
47. I did not receive the other information prior to the date of the auditor's report. When I do receive this information and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to reissue my auditor's report amended as appropriate.

Internal control deficiencies

48. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
 - Leadership did not adequately exercise oversight of financial and performance reporting and compliance with legislation. In addition they did not have sufficient monitoring controls to ensure that financial and performance reports submitted for audit were accurate and complete.
 - Senior management did not implement adequate control disciplines over financial and performance reporting and compliance with key legislation. There was a lack of a proper records management system that could support the information reported in the financial statements and performance report, with the result that material errors and omissions were identified during the audit process.
 - The audit committee and internal audit unit had limited impact in ensuring the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. These structures failed to effectively monitor and review the implementation of action plans to address prior year findings resulting in numerous repeat findings. This is due to the audit committee not effectively functioning throughout the year and the internal audit failing to execute its responsibilities toward the entity to identify internal control deficiencies and make recommendations for corrective action by management.

Other reports

49. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.



Investigations

50. The South African Police Service is investigating a case of fraud against a service provider who failed to perform in terms of a contract during the period February 2015 to June 2015. The investigation is still in progress.
51. The South African Police Service, at the request of the municipality, is investigating a case of fraud against an employee for illegal access to municipal bank account. The investigation is currently in progress.

Auditor-General

Rustenburg

30 November 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

52. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance areas and on the municipality's compliance with respect to the selected subject matters.

Financial statements

53. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Dr Kenneth Kaunda District Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

54. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
55. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.